Ogilvy & Mather

International Inc., Advertising

ANNUAL REPORT 1971

Ogilvy & Mather International Inc. Comparative highlights:

	1971	1970	% Change
Capitalized billings	$325,537,334	$275,130,430	+18.3
Commissions, fees & other income	49,596,222	42,084,112	+17.9
Equity in net income of foreign associated advertising agencies	142,386	117,623	+21.1
Net income	**3,449,475**	**2,646,600**	**+30.3**
Working capital	8,816,749	7,194,783	+22.5
Stockholders' equity	15,970,209	12,253,064	+30.3
Common share data:			
Net income per share (primary)	$ 2.94	$ 2.40	+22.5
Net income per share (fully diluted)	2.90	2.37	+22.4
Cash dividends per share	.77½	.67½	+14.8
Stockholders' equity per share	13.96	11.18	+24.9
Outstanding common shares at year end	1,144,150	1,096,188	+ 4.4

David Ogilvy, Chairman, Ogilvy & Mather International

Dear Stockholder:

Your company is, I believe, in better shape than I have ever seen it. Our profits more than doubled in the last four years. In 1971 they increased by 30.3 percent. Our forecast for 1972 is encouraging.

Our roster of clients includes some of the greatest corporations in the world, and they are entrusting Ogilvy & Mather with a mounting volume of their advertising.

The team which now manages Ogilvy & Mather is remarkable for its professionalism and its vitality. (See pages 16-17.)

When I am asked how Ogilvy & Mather differs from other advertising agencies, I answer in these terms:

1. I think we are a little more *professional*. For example, we have a codified corpus of knowledge as to what factors make for resultful advertising; we put the interests of our clients ahead of our own; and we are discreet.

2. Our management is more egalitarian, without the kind of military hierarchy which saps initiative.

3. We take tremendous pains in recruiting, and in training for management.

4. We have fewer clients than most other agencies of comparable size. This is particularly true in the United States; all our clients have continuous access to our best brains.

Perhaps I may be forgiven for believing that Ogilvy & Mather is now the *best* advertising agency. But we are still only half the size of two of our competitors; there is plenty of room to grow.

The big event of 1971 was our acquisition of S. H. Benson, Ltd., a large British agency. With Benson's we acquired offices not only in the United Kingdom, but also in Nigeria, Kenya, India, Malaysia, Singapore, Indonesia and Hong Kong.

We now have offices in twenty-four countries, and we are reconnoitering Japan, Spain and Scandinavia.

About half of our billings derive from clients whom we serve internationally—in three or more countries. I expect that half of our 1972 profits will be earned outside the United States.

The February 1972 issue of *Dun's Review* quotes a big brokerage house as pointing out that the long-term earnings records of the large, publicly held agencies have far exceeded those of the companies in the Dow-Jones Industrial Average. He goes on to say:

"Ogilvy has the best record in the industry. Its earnings have risen every year since 1962. Most of its clients are blue-chip companies that are less prone to cut back during recessions."

Of course we are not without problems. They include these:

1. In their zeal to protect consumers, the regulatory agencies are making it increasingly difficult to give a competitive edge to the campaigns we create for our clients.

2. Our offices in Paris and Milan are still in the red.

3. The economic climate in some of our countries is unfavorable.

On the whole, however, your company is thriving, and I think its present momentum will be sustained.

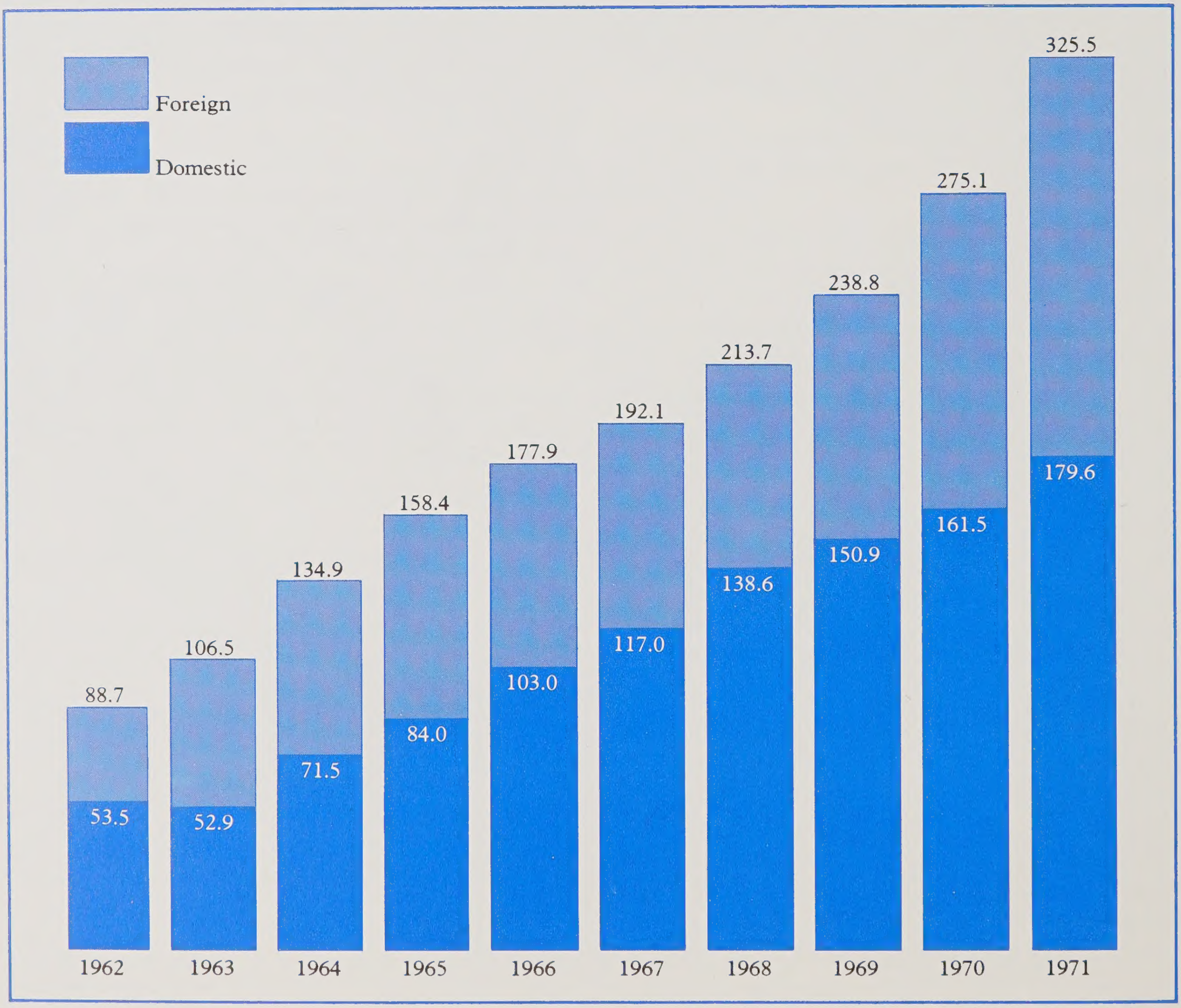
In March we elected our first two outside directors: Paul L. Miller, President of The First Boston Corporation, and George N. Lindsay, a partner in Debevoise, Plimpton, Lyons & Gates, who are our General Counsel. Mr. Miller and Mr. Lindsay will add much wisdom to our deliberations.

David Ogilvy

April 12, 1972 — Chairman of the Board

Ten-year billings growth

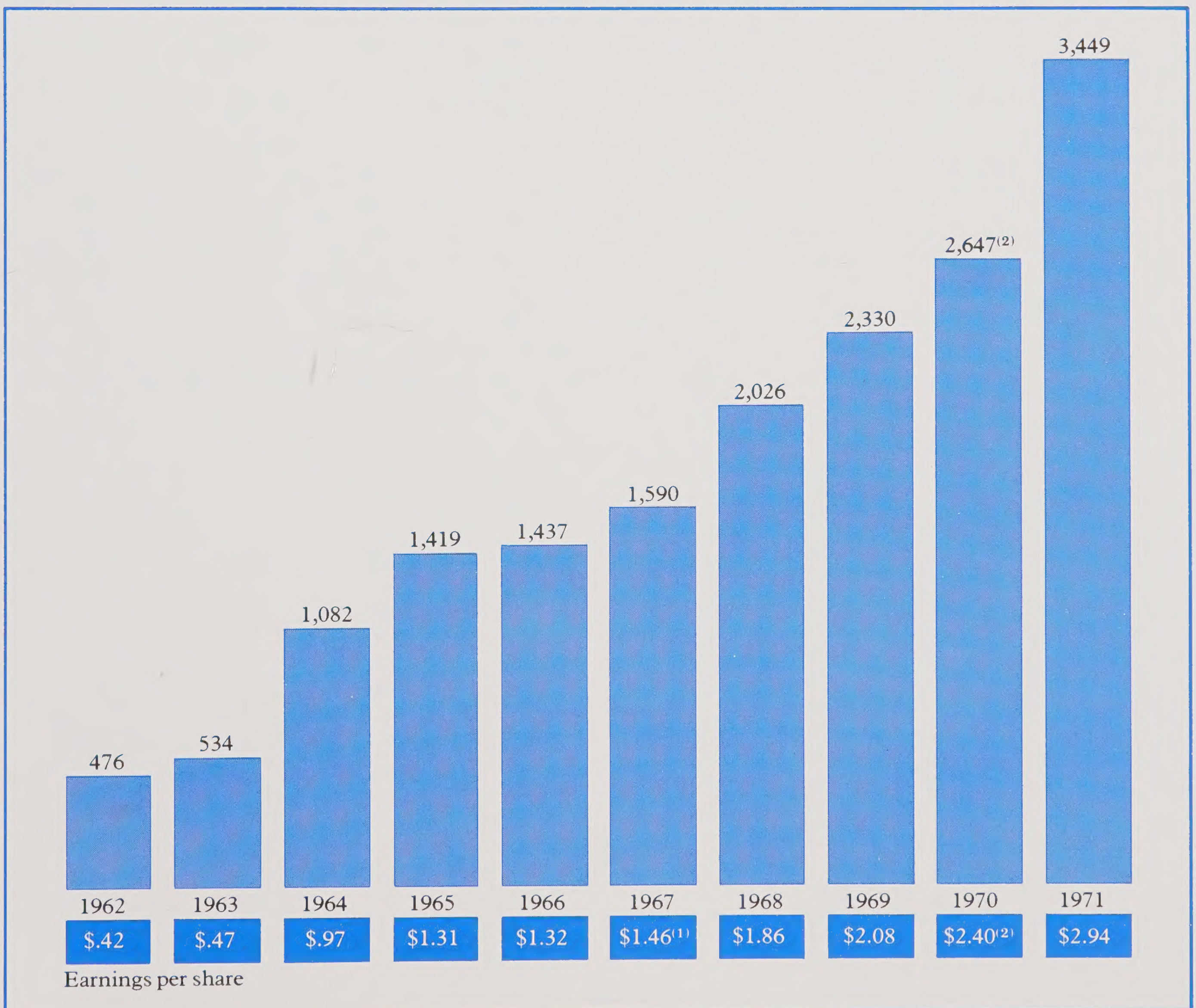
Millions of dollars



Billings restated on the basis of capitalized fee and commission income.

Ten-year operating income* and earnings per share

*Thousands of dollars



(1) Excludes extraordinary charge of $.23 per share.

(2) Restated to include equity income.

Five-year summary

Thousands of dollars

	1967	1968	1969	1970	1971
Operating data:					
Capitalized billings	$192,123	$213,713	$238,786	$275,130	$325,537
Fee and commission income	28,804	32,041	35,800	41,249	48,806
Other income, net	289	363	704	835	790
	29,093	32,404	36,504	42,084	49,596
Salaries & other employee benefits	17,775	19,623	21,857	25,107	28,680
Office, general & other expenses	7,086	7,190	8,185	10,390	12,567
Depreciation & amortization	460	498	648	802	845
Interest expense	107	95	107	130	131
Minority interests	33	50	71	116	193
	25,461	27,456	30,868	36,545	42,416
Income before taxes	3,632	4,948	5,636	5,539	7,180
Provision for taxes on income:					
Domestic	1,460	2,261	2,327	2,026	2,221
Foreign	582	661	979	984	1,652
	2,042	2,922	3,306	3,010	3,873
	1,590	2,026	2,330	2,529	3,307
Equity in net earnings of foreign associated advertising agencies				118[3]	142
Income before extraordinary charge	1,590	2,026	2,330	2,647	3,449
Extraordinary charge	253[1]				
Net income	1,337	2,026	2,330	2,647	3,449
Working capital	5,033	6,580	7,237	7,195	8,817
Stockholders' equity	7,055	8,544	10,341	12,253	15,970
Common stock data:					
Net income per share (primary)	$1.46[2]	$1.86	$2.08	$ 2.40	$ 2.94
Net income per share (fully diluted)				$ 2.37	$ 2.90
Cash dividends per share	$ .47½	$ .50	$ .57½	$ .67½	$ .77½
Stockholders' equity per share	$6.47	$7.84	$9.43	$11.18	$13.96

[1] Devaluation of the British Pound. [2] Before extraordinary charge of $.23 per share. [3] Retroactively restated. The equity income exceeded dividend income by $78,735.

Profits up 30.3 per cent

In 1971, Ogilvy & Mather grew for the tenth consecutive year. Our net income increased by 30.3 percent to $3,449,475 or $2.94 per share, compared with $2,646,600 or $2.40 per share, in 1970.

Our billings increased to $325,537,334 from $275,131,430 in 1970, or 18.3 percent.

We paid four quarterly dividends, the first of 17½ cents per share, then three of twenty cents per share: 77½ cents per share for the year.

Our policy has been to distribute about one-third of our earnings as dividends. However, under the Wage and Price Control regulations, it appears unlikely that we shall be able to increase our dividends in 1972.

Profits increased both within the United States and internationally. We expanded into seven new countries; Ogilvy & Mather now has forty-six offices in twenty-four countries, with a total staff of 3,320. We have become the eighth largest advertising agency in the world.

In 1971, our international operations accounted for 46.5 percent of profits, up from 39.0 percent in 1970. While we expect a satisfactory profit increase within the United States in 1972, we look to an even faster rate of growth internationally.

John Elliott, Jr., Chairman, New York

We continue to grow in the U.S.

Andrew G. Kershaw, President, New York

Billings in the United States increased to $179,572,648, a growth of 11.2 percent over 1970. Profits increased 11.3 percent.

However, the sluggish economy resulted in cutbacks in some advertising expenditures. We effected tighter budget controls. Our New York salary costs were reduced 5.6 percent from 1970. Fewer, more able, better paid people are the key to greater efficiency and superior service.

Despite these measures, our U.S. income would have been down slightly had it not been for the income of Carson/Roberts, the Los Angeles agency we purchased early in 1971.

Late in the year, we added several new accounts, and received additional assignments from present clients. We also resigned and lost some clients. These changes resulted in a net increase in our annual rate of billings of more than $15,000,000. In addition, we anticipate increases in our 1972 income from many of our present clients.

Responsibility to the public

Inevitably we must be concerned about the effect on our business of consumerism and increasing regulation. These forces represent change. But not the kind of change that need adversely affect the fortunes of Ogilvy & Mather.

Consumerism is nothing more than people saying to manufacturers, shopkeepers, salesmen, and to us in advertising:

Don't hurt me.
Don't cheat me.
Don't turn a deaf ear, when something goes wrong.

We at Ogilvy & Mather have long preached respect for the consumer. Our often-quoted maxim —"The consumer is not a moron; she is your wife"— preceded the current fashion for consumerism by fifteen years.

We believe in *informative* advertising, because we have observed that, in most cases, the more you tell the more you sell. And we are acutely aware of our responsibility to consumers for advertising that is honest and in good taste.

We are sensitive to other responsibilities to the public. Each year, Ogilvy & Mather is increasingly active in *public service* advertising. In 1971, working without remuneration, we again created advertising for the Department of Labor ("Continue Your Education"); New York City's Department of Parks (anti-litter); the Red Cross; National Bible Week; and many other projects.

Our people, as individuals, contributed their professional talents to scores of other worthwhile projects—so many that it would be invidious to single out any for mention here.

We have a program for recruiting and training members of minority groups. It includes sponsorship of eight scholarships at New York University for blacks and Puerto Ricans. These students work for Ogilvy & Mather full time during vacation periods, and part time during the college semesters.

Almost 12 percent of our staff are members of minority groups. They are about evenly divided between professional and clerical categories.


Henry P. Bernhard, Vice Chairman, New York

We continue to grow internationally

Profits from our international operations increased by 55.3 percent in 1971 and accounted for 46.5 percent of our total.

Our London company changed substantially during the year. We acquired S. H. Benson, the well-known British advertising agency, and merged it with our London company under the name Ogilvy Benson & Mather Ltd. We also acquired a group of Benson subsidiary agencies in England. As a result of these acquisitions, Ogilvy Benson & Mather became the largest advertising group in the U.K. Profits in the U.K. increased by 46.4 percent, but the full benefits will not be felt until 1973.

We also acquired the Benson group of subsidiaries in Kenya, Nigeria, India, Malaysia, Singapore, Indonesia and Hong Kong. Their client lists include several of our international clients.

Our profits on the European continent increased by 44.9 percent in 1971.
In Germany, despite a sluggish period for advertising agencies generally, Heumann Ogilvy & Mather had a record year. We won eleven new assignments: five from existing clients, and six new accounts.

Our small office in Austria won four new accounts and had its best year so far.

In Holland and Belgium, Van Maanen, Ogilvy & Mather continued to progress, gaining a number of new accounts and increasing profits.

In Italy and France our operations are not yet profitable. However, our Italian office gained some domestic and international accounts in 1971, and we expect an improvement in 1972.

James Benson, Vice Chairman, Ogilvy & Mather International

In France, our business is beginning to show encouraging growth. We are committed to achieving success in both France and Italy.

Our Canadian company increased profits by 12.7 percent in 1971. This was accomplished in the face of the most difficult year the agency business in Canada has seen in the past decade.

We added two new accounts and were given additional assignments by eight present clients.

Our Australian company continued its record of uninterrupted growth. Profits were up by 41.0 percent.

Our New Zealand company, which was opened in 1970, had a remarkable first year, win-

A. A. Ross, Chairman, London

Michael J. Ball, Managing Director, London

ning thirteen new accounts. After only eighteen months of operation, Ogilvy & Mather is already the sixth largest agency in New Zealand.

During the past three years, we have made minority investments totaling $2,200,857 in advertising agencies in Mexico, Venezuela, Colombia, Brazil, Argentina and South Africa. In 1971, we adopted the policy, where appropriate, of including our share of the equity income of these agencies in our profit and loss statement. For comparative purposes, we have restated our 1970 profits on the same basis.

In 1971, our equity income in Latin America decreased by 32.7 percent. This was largely the result of not including Argentine equity income in

Shelby H. Page, Treasurer, Ogilvy & Mather International

William E. Phillips, Senior Vice President, N.Y. & Director, Latin America

our 1971 statement, because of exchange control restrictions.

In Argentina, Ortiz, Scopesi y Ratto/Ogilvy & Mather gained significant new business. This resulted in increased dollar profits despite the severe economic problems of the Argentine. Only as we are able to remit these funds to the U.S. will we include them in reported earnings.

In Mexico, the advertising business was adversely affected by changes in federal spending and tax laws. Despite these conditions, our associate agency Panamericana de Publicidad achieved increased profits.

In Venezuela, our associate is CORPA, the largest agency in the country. Billings and profits declined moderately versus the previous year, but remained satisfactory. Through Corpa, we have a small interest in Ponce de Leon Publicidad, in Colombia.

In Brazil, Standard Propaganda increased their billings. Early in 1972, we acquired the remaining shares of Standard, in which we had previously held a substantial minority interest. The Brazilian economy continues to grow and we now have one of the largest agencies in the country, with offices in six cities.

In South Africa, our associate is Van Zijl and Schultze, Lund and Tredoux. In 1971, this agency gained several new domestic accounts, as well as assignments from international advertisers. Billings and profits increased.

International companies are turning more and more to those advertising agencies that can provide first-class international services.

Two years ago, we served 17 clients in three or more countries. We now serve 31, as shown on pages 14 and 15. We expect these international advertisers to be a continuing source of growth for Ogilvy & Mather.

In the pocket inside the back cover are lists of our clients, country by country, as well as the fine products we advertise for them.

How to create advertising that sells

by David Ogilvy

Ogilvy & Mather has created over $1,300,000,000 worth of advertising, and spent $4,500,000 tracking the results.

Here, with all the dogmatism of brevity, are 38 of the things we have learned.

1. The most important decision. We have learned that the effect of your advertising on your sales depends more on this decision than on any other: *How should you position your product?*

Should you position SCHWEPPES as a soft drink—or as a mixer?

Should you position DOVE as a product for dry skin or as a product which gets hands really clean?

The results of your campaign depend less on how we write your advertising than on how your product is positioned. It follows that positioning should be decided before the advertising is created.

Research can help. Look before you leap.

2. Large promise. The second most important decision is this: what should you promise the customer? A promise is not a claim, or a theme, or a slogan. It is a *benefit for the consumer.*

It pays to promise a benefit which is unique and competitive. And the product must *deliver* the benefit you promise.

Most advertising promises *nothing*. It is doomed to fail in the marketplace.

"Promise, large promise, is the soul of an advertisement"—said Samuel Johnson.

3. Brand image. Every advertisement should contribute to the complex symbol which is the brand image. Ninety-five percent of all advertising is created *ad hoc.* Most products lack any consistent image from one year to another.

The manufacturer who dedicates his advertising to building the most sharply defined personality for his brand gets the largest share of the market.

4. Big ideas. Unless your advertising is built on a BIG IDEA it will pass like a ship in the night.

It takes a BIG IDEA to jolt the consumer out of his indifference—to make him *notice* your advertising, *remember* it and *take action.*

Big ideas are usually *simple* ideas. Said Charles Kettering, the great General Motors inventor: "This problem, when solved, will be simple."

BIG SIMPLE IDEAS are not easy to come by. They require genius—and midnight oil. A truly big one can be continued for twenty years—like our Eyepatch for Hathaway shirts.

5. A first-class ticket. It pays to give most products an image of quality—a first-class ticket.

Ogilvy & Mather has been conspicuously successful in doing this—for Pepperidge, Hathaway, Mercedes-Benz, Schweppes, Dove and others.

If your advertising looks ugly, consumers will conclude that your product is shoddy, and they will be less likely to buy it.

6. Don't be a bore. Nobody was ever *bored* into buying a product. Yet most advertising is impersonal, detached, cold—and dull.

It pays to *involve* the customer.

Talk to her like a human being. Charm her. Make her hungry. Get her to participate.

7. Innovate. Start trends—instead of following them. Advertising which follows a fashionable fad, or is imitative, is seldom successful.

It pays to *innovate,* to blaze new trails.

But innovation is risky unless you pretest your innovation with consumers. Look before you leap.

8. Suspect awards. The pursuit of creative awards seduces creative people from the pursuit of sales. We have been unable to establish any correlation between awards and sales.

At Ogilvy & Mather we now give an annual award for the campaign which contributes the most to *sales*

Successful advertising sells the product without drawing attention to itself. It rivets the consumer's attention on the *product.*

Make the product the hero of your advertising.

9. Psychological segmentation. Any good agency knows how to position products for *demographic* segments of the market—for men, for young children, for farmers in the South, etc.

But Ogilvy & Mather has learned that it often pays to position products for *psychological* segments of the market.

Our Mercedes-Benz advertising is positioned to fit non-comformists who scoff at "status symbols" and reject flim-flam appeals to snobbery.

10. Don't bury news. It is easier to interest the consumer in a product when it is *new* than at any other point in its life. Many copywriters have a fatal instinct for burying news. This is why most advertising for new products fails to exploit the opportunity that genuine news provides.

It pays to launch your new product with a loud BOOM-BOOM

11. Go the whole hog. Most advertising campaigns are too complicated. They reflect a long list of marketing objectives. They embrace the divergent views of too many executives. By attempting too many things, they achieve nothing.

It pays to boil down your strategy to one simple promise—and go the whole hog in delivering that promise.

What works best in television

12. Testimonials: Avoid irrelevant celebrities. Testimonial commercials are almost always successful—if you make them credible

Either celebrities or real people can be effective. But avoid *irrelevant* celebrities whose fame has no natural connection with your product or your customers. Irrelevant celebrities steal attention from your product.

13. Problem-solution (don't cheat!) You set up a problem that the consumer recognizes.

Then you show how your product can solve that problem.

And you prove the solution.

This technique has always been above average in sales results, and it still is. But don't use it unless you can do so *without cheating;* the consumer isn't a moron, she is your wife.

14. Visual demonstrations. If they are honest, visual demonstrations are generally effective in the marketplace.

It pays to *visualize your promise.* It saves time. It drives the promise home. It is memorable

15. Slice of life. These playlets are corny, and most copywriters detest them. But they have sold a lot of merchandise, and are still selling.

16. Avoid logorrhea. Make your *pictures* tell the story. What you show is more important than what you say.

Many commercials drown the viewer in a torrent of words. We call that logorrhea (rhymes with diarrhea).

We have created some great commercials *without* words.

17. On-camera voice. Commercials using on-camera voice do significantly better than commercials using voice-over.

18. Musical backgrounds. Most commercials use musical backgrounds. However, on the average, musical backgrounds reduce recall of your commercial.

Very few creative people accept this finding. But we never heard of an agency using musical background under a new business presentation.

19. Stand-ups. The stand-up pitch can be effective, if it is delivered with straightforward honesty.

20. Burr of singularity. The average consumer now sees 20,000 commercials a year; poor dear.

Most of them slide off her memory like water off a duck's back

Give your commercials a flourish of singularity, a burr that will stick in the consumer's mind. One such burr is the MNEMONIC DEVICE, or relevant symbol—like the crowns in our commercials for Imperial Margarine

21. Animation & cartoons. Less than five percent of television commercials use cartoons or animation. They are less persuasive than live commercials

The consumer cannot identify herself with the character in the cartoon. And cartoons do not invite belief.

However, Carson/Roberts, our new partners in Los Angeles, tell us that animation can be helpful when you are talking to children

They should know—they have addressed more than six hundred commercials to children

22. Salvage commercials. Many commercials which test poorly can be salvaged.

The faults revealed by the test can be corrected We have *doubled* the effectiveness of a commercial simply by re-editing it

23. Factual vs. emotional. Factual commercials tend to be more effective than emotional commercials.

However, Ogilvy & Mather has made some emotional commercials which have been successful in the marketplace. Among these are our campaigns for Maxwell House Coffee and Hershey's Milk Chocolate.

24. Grabbers. We have found that commercials with an exciting opening hold their audience at a higher level than commercials which begin quietly

What works best in print

25. Headlines. On the average, five times as many people read the headline as read the body copy.

It follows that, if you don't sell the product in your headline, you have wasted 80 percent of your money. That is why most Ogilvy & Mather headlines include the brand name and the promise.

26. Benefit in headlines. Headlines that promise a benefit sell more than those that don't

27. News in headlines. Time after time, we have found that it pays to inject genuine *news* into headlines.

The consumer is always on the lookout for new products, or new improvements in an old product, or new ways to use an old product.

Economists—even Russian economists—approve of this. They call it "informative" advertising. So do consumers.

28. Simple headlines. Your headline should *telegraph* what you want to say—in simple language. Readers do not stop to decipher the meaning of obscure headlines.

29. How many words in a headline? When the New York University School of Retailing ran headline tests with the cooperation of a big department store, they found that headlines of ten words or longer sold more goods than short headlines.

In terms of *recall,* headlines between eight and ten words are most effective.

In *mail-order* advertising, headlines between six and twelve words get the most coupon returns.

On the average, long headlines sell more merchandise than short ones—headlines like our "At 60 miles an hour, the loudest noise in this new Rolls-Royce comes from the electric clock."

30. Localize headlines. In local advertising it pays to include the name of the city in your headline

31. Select your prospects. When you advertise a product which is consumed only by a special group, it pays to "flag" that group in your headline—MOTHERS, BED WETTERS, GOING TO EUROPE?

32. Yes, people read long copy. Readership falls off rapidly up to fifty words, but drops very little between fifty and five hundred words. (This page contains 1900 words, and *you* are reading it.)

Ogilvy & Mather has used long copy—with notable success—for Mercedes-Benz, the French Government Tourist Office, Merrill Lynch and Shell gasoline.

Says the Graduate School of Retailing at New York University, "The more facts you tell, the more you sell. An advertisement's chance for success increases as the number of pertinent merchandise facts included in the advertisement increases."

33. Story appeal in picture. Ogilvy & Mather has gotten notable results with photographs which suggest a story. The reader glances at the photograph and asks himself, "What goes on here?" Then he reads the copy to find out.

Harold Rudolph called this magic element "story appeal." The more of it you inject into your photograph, the more people look at your advertisement.

It is easier said than done.

34. Before & after. Before and After advertisements are somewhat above average in attention value

Any form of "visualized contrast" seems to work well.

35. Photographs vs. artwork. Ogilvy & Mather has found that photographs work better than drawings—almost invariably.

They attract more readers, generate more appetite appeal, are more believable, are better remembered, pull more coupons, and sell more merchandise.

36. Use captions to sell. On the average, twice as many people read the captions under photographs as read the body copy.

It follows that you should never use a photograph without putting a caption under it; and each caption should be a miniature advertisement for the product—complete with brand name and promise

37. Editorial layouts. Ogilvy & Mather has had more success with editorial layouts than with "addy" layouts.

Editorial layouts get higher readership than conventional advertisements.

38. Repeat your winners. Scores of great advertisements have been discarded before they have begun to pay off.

Readership can actually *increase* with repetition—up to five repetitions.

Is this all we know?

These findings apply to most categories of products. But not to all.

Ogilvy & Mather has developed a separate and specialized body of knowledge on what makes for success in advertising *food products, tourist destinations, proprietary medicines, children's products*—and other classifications.

But this special information is revealed only to the clients of Ogilvy & Mather.

Ogilvy & Mather

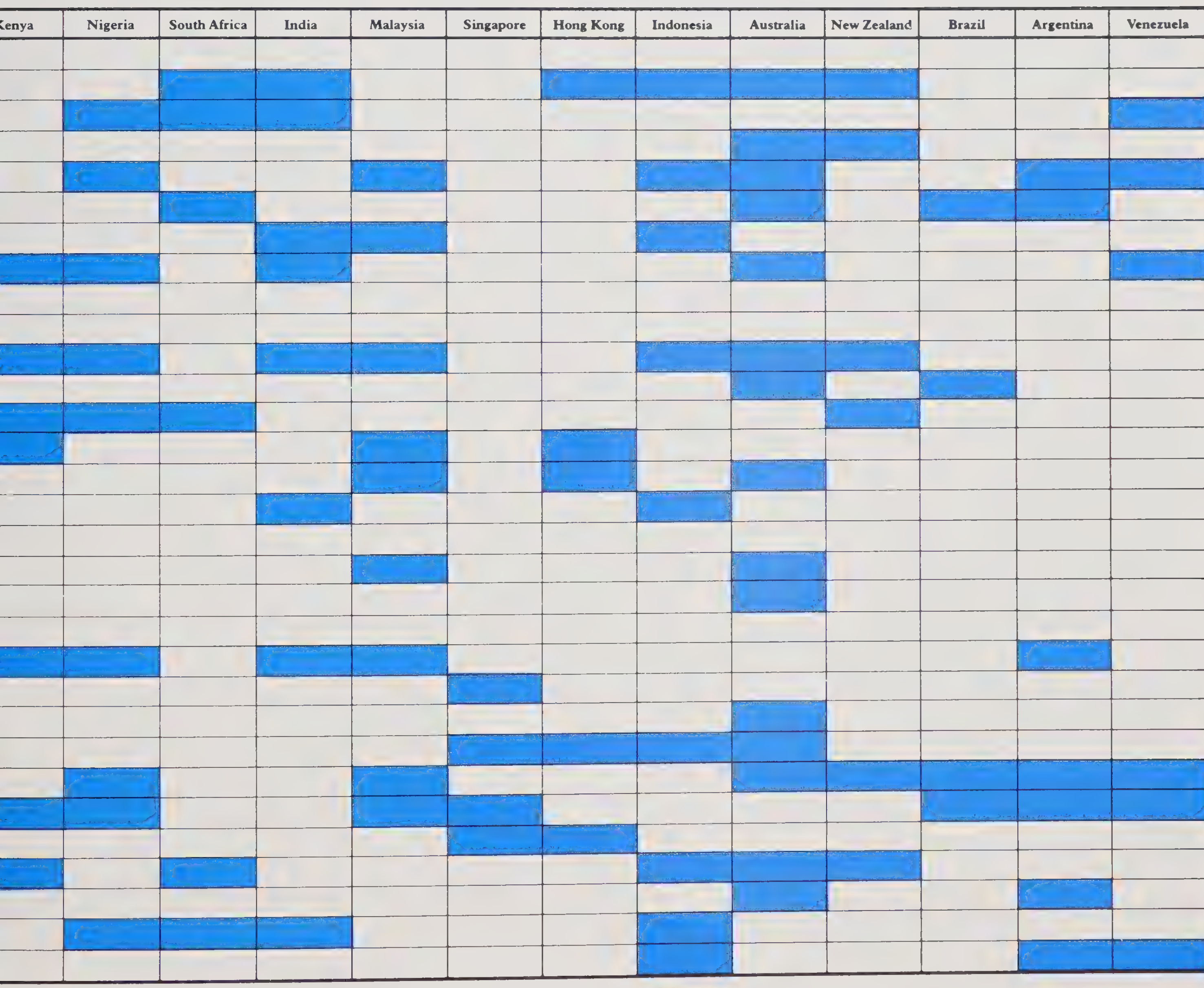
2 East 48th Street, New York, N.Y. 10017

We take our own medicine: this advertisement (and three others) appeared in the New York Times in April 1971.

Clients served in three

	U.S.	Canada	Mexico	U.K.	Germany	Austria	Holland	Belgium	France	Italy
Air Canada				■		■			■	■
American Express	■	■		■	■	■	■	■	■	■
Beecham			■							
Bristol-Myers	■	■								
British American Tobacco			■	■						
British Tourist Authority	■	■	■	■	■		■	■	■	■
Burroughs Wellcome										
Cadbury Schweppes	■	■		■	■	■			■	■
Campbell Soup	■	■		■						
Cinzano				■				■		■
Dunlop										
General Foods	■	■			■					
Gillette				■	■					
Guinness										
ICI		■		■					■	■
Johnson & Johnson		■								
Mars/Petfoods				■	■	■				■
Massey-Ferguson				■						
Mercedes-Benz	■	■			■	■	■			
Merrill Lynch	■	■			■		■			■
Philips										
Rediffusion				■					■	
Rowntree Mackintosh		■		■						
Sheaffer Pen										
Shell Chemical	■	■			■	■	■			
Shell Oil	■	■		■	■	■	■			
Smith, Kline & French	■	■		■	■					
Unilever	■	■		■	■		■	■	■	■
U.S. Travel Service	■	■	■	■	■		■		■	■
Vick International										
Yardley			■			■				

or more countries:



These men manage

Photographed at the Heads of Offices Meeting in New York, March 1971, front row, left to right: Henry Bernhard and Paul Biklen, New York; Donald Atkins, London; William Phillips, New York; Federico Ortiz, Buenos Aires; Morley Arnason, Toronto; Jacques Regis Etievan, Caracas; Andrew Kershaw, New York; John Straiton, Toronto. **Second row,** left to right: Wolfgang Slupetzky, Vienna; John Elliott, Jr., New York; Stanley Pigott and Dan Ellerington, London; William Weed, New York; A. A. Ross,

Ogilvy & Mather

London; Raul Gutierrez, Mexico; Alvaro Ponce de Leon, Bogota; Maurice Cohen, São Paulo; Michael Drummond, Sydney; **Standing, left to right:** Stanley Canter and David Ogilvy, New York; Eddie de Smet, Amsterdam; Ralph Carson, Los Angeles; Robert Miller and Dieter Karp, Frankfurt; John Lund, Johannesburg; Robert Lasagna, Milan; Raymond Nossent, Brussels; Jack Roberts, Los Angeles; Michael Ball, London; Cy Schneider, Los Angeles; Mac Shoub, Montreal; James Benson, London; Shelby Page, New York.

Ogilvy & Mather International Inc. Consolidated statement of income and retained earnings

For the years ended December 31, 1971 and 1970

	1971	1970*
Income		
Fee and commission income	$48,806,197	$41,248,940
Other income, net	790,025	835,172
	49,596,222	42,084,112
Expenses		
Salaries and other employee benefits	28,680,626	25,107,152
Office and general expenses	12,566,524	10,389,741
Depreciation and amortization	845,157	802,197
Interest expense	130,689	129,911
Minority interests	192,868	116,184
	42,415,864	36,545,185
Income Before Taxes on Income	7,180,358	5,538,927
Provision for taxes on income		
Domestic	2,220,664	2,025,426
Foreign	1,652,605	984,524
	3,873,269	3,009,950
	3,307,089	2,528,977
Equity in net earnings of foreign associated advertising agencies (Note 1)	142,386	117,623
Net Income	3,449,475	2,646,600
Retained Earnings, Beginning of Year	9,591,328	7,684,613
	13,040,803	10,331,213
Dividends paid	872,665	739,885
Retained Earnings, End of Year	$12,168,138	$ 9,591,328
Per Share of Common Stock:		
Primary earnings per share	$2.94	$2.40
Fully diluted earnings per share	$2.90	$2.37
Dividends	$ .77½	$ .67½

*Restated for comparability.

Consolidated balance sheet

	December 31, 1971	1970*
ASSETS		
Current Assets		
Cash and temporary investments	$ 5,974,020	$ 2,782,895
Client accounts receivable, net	41,235,446	27,725,981
Other accounts receivable	765,221	363,477
Expenditures billable to clients	3,492,641	3,460,267
Prepaid expenses and other current assets	1,351,744	1,029,969
Total current assets	52,819,072	35,362,589
Fixed Assets, at cost		
Furniture, fixtures and equipment	5,918,648	4,032,462
Leasehold improvements	3,213,112	2,587,521
	9,131,760	6,619,983
Less accumulated depreciation and amortization	4,357,901	3,076,283
	4,773,859	3,543,700
Investments in foreign associated advertising agencies (Note 2)	2,385,801	1,969,808
Excess of investments in consolidated companies over net assets acq. (Note 2)	2,758,975	1,006,114
Deferred charges and other assets, less amortization	1,032,113	733,070
	$63,769,820	$42,615,281
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$30,044,944	$20,879,769
Accrued expenses and other liabilities	5,550,196	2,313,000
Income taxes	2,888,739	2,128,139
Bank loans	3,465,517	899,643
Contributions payable to profit-sharing plans	1,244,821	1,211,147
Payroll and miscellaneous taxes	808,106	736,108
Total current liabilities	44,002,323	28,167,806
Retirement and severance reserves	1,245,899	1,067,429
8 percent convertible loan stock 1976/81 (Note 2)	1,020,000	
15-Year 6 percent debentures (Note 3)	811,000	811,000
Reserve for foreign operations (Note 1)	304,236	
Minority interests	416,153	315,982
Stockholders' Equity (Notes 3 and 4)		
Common stock $2 par value:		
Authorized—1,400,000 shares		
Issued —1,144,250 shares in 1971		
—1,096,288 shares in 1970	2,288,500	2,192,576
Paid-in surplus	1,515,251	470,840
Retained earnings	12,168,138	9,591,328
	15,971,889	12,254,744
Less—Treasury stock, 100 shares, at cost	1,680	1,680
	15,970,209	12,253,064
	$63,769,820	$42,615,281

*Restated for comparability.

Statement of changes in financial position

	1971	1970*
Sources of Financial Resources		
Net income	$ 3,449,475	$ 2,646,600
Depreciation and amortization	845,157	802,197
Additions to pensions and related reserves, net	178,470	174,733
Working capital provided from operations	4,473,102	3,623,530
Long term debt issued for acquisition	1,020,000	
Market value of capital stock issued for acquisitions	702,125	
Proceeds from exercise of stock options	438,210	5,175
Working capital of acquired companies	390,139	471,171
Upward revaluation of foreign currencies (Note 1)	304,236	
Proceeds from sale of miscellaneous assets	229,931	
	7,557,743	4,099,876
Uses of Financial Resources		
Costs of acquired subsidiary companies	3,911,359	
Investments in foreign associated advertising agencies	356,847	1,520,635
Dividends	872,665	739,885
Purchases of fixed assets	715,962	1,198,688
Repayment of bank loan		300,000
Other	78,944	382,592
	5,935,777	4,141,800
Net increase (decrease) in working capital	$ 1,621,966	$ (41,924)
Analysis of Changes in Working Capital		
Increase (decrease) in current assets:		
Cash and temporary investments	$ 3,191,125	$(5,192,612)
Client accounts receivable, net	13,509,465	3,425,953
Other-principally other accounts receivable	755,893	162,395
	17,456,483	(1,604,264)
Increase (decrease) in current liabilities:		
Accounts payable	9,165,175	(1,887,516)
Accrued liabilities and other payables	3,342,868	813,279
Bank loans	2,565,874	(544,134)
Income taxes	760,600	56,031
	15,834,517	(1,562,340)
Increase (decrease) in working capital	$ 1,621,966	$ (41,924)

*Restated for comparability.

Distribution of net assets, gross billings and net income of operating agencies

Net Assets	U.S.	U.K.	Europe, Canada, Australia, New Zealand, Africa and Southeast Asia
Current assets	$ 23,861,495	$16,834,702	$14,497,005
Current liabilities	(19,711,166)	(14,256,272)	(12,360,779)
Other assets, net	3,039,382	1,329,941	597,535
Net assets	$ 7,189,711*	$ 3,908,371	$ 2,733,761
Capitalized Billings	$179,572,648	$68,621,467	$77,343,219
Net Income	$ 1,990,902*	$ 1,000,498	$ 459,768

*Exclusive of net assets of $2,138,366 and $1,693 loss of the parent holding company.

Notes to consolidated financial statements

Note 1—Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company and all majority-owned companies. Foreign currency accounts have been translated into U.S. dollars at appropriate current and historical rates of exchange.

Income Taxes:

No provision has been made for U.S. and foreign taxes which would be payable upon remittance of foreign subsidiaries' retained earnings to the parent Company; no such distribution is contemplated since these retained earnings are needed for working capital requirements and all dividends from subsidiaries are paid out of current earnings of the respective companies.

Fixed Assets and Depreciation:

Depreciation of furniture, fixtures and equipment is provided by charges to income using the straight-line and sum of the years digits methods over estimated useful lives ranging generally from 4 to 10 years. Amortization of leasehold improvements is provided over the terms of the related leases.

Major expenditures for renewals and betterments are capitalized and repairs and maintenance are charged to income currently. When fixed assets are sold or retired both the cost and the related depreciation are removed from the accounts and any gain or loss on the transaction is included in income.

Investments:

In accordance with Accounting Principles Board Opinion #18, in 1971 the Company retroactively changed its accounting for investments in certain less than majority owned advertising agencies from the cost method to the equity method, and accordingly has included its share of their earnings for 1970 and 1971 as separate amounts in the Consolidated statement of income. In the determination of the Company's share in the earnings of its associated agencies provision has been made for all taxes that would be payable if these amounts were remitted to the Company and for amortization of goodwill in accordance with the Company's policy. As of December 31, 1971 and 1970 the carrying value of these investments exceeded the Company's share of their underlying net assets by approximately $730,000 and $450,000 respectively.

Excess of Investments in Consolidated Companies Over Net Assets Acquired (Goodwill):

All goodwill arising after October 31, 1970 is being amortized on the straight-line method over its estimated useful life, but not in excess of forty years.

Reserve for Foreign Operations:

In view of the Company's substantial investments outside the United States, the Company created a reserve in 1971 by setting aside an extraordinary net gain of $304,236 which arose during the year chiefly from the realignment of various currencies.

Earnings per share:

Primary earnings per share is based on the weighted average number of common shares and common equivalent shares outstanding during each year. In 1971 common equivalent shares included shares under option and 16,500 shares held in escrow.

Fully diluted earnings per share is based on the weighted average number of common shares and common

equivalent shares (based on the year-end market value of the Company's stock) outstanding during the year and the dilutive effect of the issuance of 24,724 shares on conversion of the loan stock (See Note 2). For this calculation actual net income has been increased by the after tax effect of interest expense applicable to the convertible debt.

Note 2—Acquisitions:
On March 5, 1971 the Company's United States subsidiary acquired the business and assets of Carson/Roberts/Inc., a California based agency. The acquisition is being accounted for as a purchase and the results of operations for the ten month period beginning March 1, 1971 are included in the Consolidated Statements. The purchase price was $866,876 in cash and 16,500 shares of Ogilvy & Mather International Inc. common stock which had a total market value on the closing date of $450,000. An additional 16,500 shares of Company stock were placed in escrow to be released over the next three years if certain operating results are achieved. Effective December 31, 1971, 5,500 of these shares with a total market value of $229,625 were released from escrow.

On October 1, 1971 the Company's British subsidiary acquired the business and assets of S. H. Benson Ltd., a United Kingdom agency with subsidiaries in the United Kingdom, Africa and Southeast Asia. The acquisition is being accounted for as a purchase and the results of operations for the three month period beginning October 1, 1971 are included in the Consolidated Statements. The cost of this acquisition was approximately $2,365,000, including $1,020,000 in 8 percent Loan Stock which is convertible at the option of the holder on 30 days' notice into 24,724 shares of Ogilvy & Mather International Inc. common stock. The loan stock is redeemable from time to time after June 30, 1976 at par plus various premiums, and matures on June 30, 1981.

The goodwill resulting from the aforementioned acquisitions is being amortized in accordance with the Company's previously stated policy.

Pro forma figures showing the effect which these acquisitions would have had on 1970 and 1971 earnings had the companies been acquired on January 1, 1970 are shown below.

	1971	1970
Commissions, fees and other income	$58,702,925	$58,369,873
Net income	$3,137,918	$2,898,091
Net income per share (primary)	$2.66	$2.55
Net income per share (fully diluted)	$2.59	$2.51

A minority interest in Van Zijl & Schultze, Lund & Tredoux (Pty.) Ltd., a South African advertising agency, was purchased on January 19, 1971 for $317,884 cash and 900 shares of Ogilvy & Mather International Inc. common stock with a total market value of $22,500. The investment in this associated agency is accounted for on the equity basis.

Standard Propaganda S.A., a large Brazilian advertising agency, became a wholly owned subsidiary on March 1, 1972 when the balance of its outstanding shares were purchased. The cost of this acquisition, including the cost of a minority interest acquired in 1970, was $1,335,000 in cash, part of which is payable over the succeeding 62 months. In addition, if Standard's net profits exceed the equivalent of $1,000,000 during the five years ending December 31, 1976, twenty percent of such excess is also payable to the former owners.

Note 3—Debentures & Earnings Available for Dividends:
The 15-year 6% debentures are payable in five annual installments beginning December 31, 1975; the Company has the right to redeem all or a part of these obligations at par plus various premiums. Under the terms of the debentures, certain restrictions are placed on the payment of cash dividends; at December 31, 1971, approximately $9,140,000 of consolidated retained earnings was not restricted.

Note 4—Common Stock and Paid-in Surplus:
During the year the Company issued 22,900 shares in connection with acquisitions (See Note 2), and 25,062 shares on the exercise of stock options.

Under the Company's Stock Option Plans ratified by the shareholders in 1966 and 1968, options for 125,000 shares may be granted to officers and key employees of the Company and its subsidiaries at prices equal to 100% of the market value on the date of grant. These options become exercisable one year from the date of grant on a cumulative annual basis at the rate of 25% of the total number of shares under option. The right to grant options under the 1966 Plan expired March 31, 1971, and will expire under the 1968 Plan on April 30, 1973.

During 1971 options for 11,200 shares were granted, options for 25,062 shares were exercised and options for 16,163 shares were cancelled, lapsed or expired. At December 31, 1971 options for 84,788 shares at prices ranging from $12.75 to $31.125 were outstanding, of which 33,385 were exercisable, and 350 shares remained available for grant.

Paid-in surplus has been increased by $656,325, the excess of the market value of shares paid for acquisitions over the par value of the shares issued, and by $388,086, the excess of the proceeds received from exercise of stock options over the par value of those shares.

Note 5—Pension and Profit Sharing Plans:
Certain of the Company's subsidiaries have pension and/or profit sharing plans for the benefit of their employees. In 1971 the cost of these plans amounted to $1,744,776 ($1,609,328 in 1970). Vested benefits of all plans are more than covered by book reserves and fund assets.

Note 6—Commitments:
Approximate annual rentals under leases in effect on premises occupied by the Company's operating subsidiaries were as follows:

1972	$3,126,000
1973	$2,998,000
1974	$2,967,000
1975	$2,843,000
1976	$3,051,000

Total lease commitments extending beyond 1976 amounted to approximately $19,325,000 for terms ending through 1991. During the year the leases of the Company's principal offices in New York and London were renegotiated for extended terms.

The Company is obligated to purchase the remaining minority interest in Heumann, Ogilvy & Mather and in Van Maanen, Ogilvy & Mather should the minority interests so elect.

Opinion of Independent Accountants

To the Board of Directors and Stockholders
of Ogilvy & Mather International Inc.

60 Broad Street
New York, N.Y. 10004

We have examined the consolidated financial statements of Ogilvy & Mather International Inc. appearing on pages 18 to 22. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As stated in Note 1, the Company retroactively changed its method of accounting for investments in certain less then majority owned advertising agencies.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Ogilvy & Mather International Inc. and its subsidiaries at December 31, 1971 and 1970, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied after giving retroactive effect to the change which we approve, stated in the preceding paragraph.

March 17, 1972

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Chairman	**David Ogilvy**
Vice Chairman	**James Benson** London
	Michael J. Ball Managing Director London
	Henry P. Bernhard Vice Chairman New York
	John Elliott, Jr. Chairman New York
	Andrew G. Kershaw President New York
	George N. Lindsay Partner Debevoise, Plimpton, Lyons & Gates
	Paul L. Miller President The First Boston Corporation
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	William E. Phillips Senior Vice President New York
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Assistant Treasurer	**John Nettleton**
Controller	**John P. Gill**
Counsel	**Debevoise, Plimpton, Lyons & Gates**
Independent Accountants	**Price Waterhouse & Co.**
Transfer Agent	**Morgan Guaranty Trust Company of New York**
Registrar	**Manufacturers Hanover Trust Company**